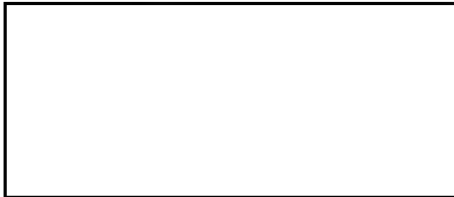


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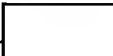
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OFFICE OF CURRENT INTELLIGENCE
CENTRAL INTELLIGENCE AGENCY

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DIA and DOS review(s) completed.

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THE TAIWAN STRAIT

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2. USSR OFFERS MILITARY AIRCRAFT TO URUGUAY

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[REDACTED] The Soviet minister to Uruguay last week offered to supply Uruguay with any type of military aircraft desired, "from trainers to jets," [REDACTED]

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25X1 [REDACTED] Payment may be made
25X1 in soft currency, surplus agricultural products, or as desired. [REDACTED] believes that acceptance is remote at this time, although Uruguay has a serious shortage of usable primary trainers.

Comment

Uruguay's small air force apparently has no need for additional combat planes, but 21 primary trainers have been requested from the United States. The USSR, in January, expressed an interest in "buying all products of the Uruguayan economy" and providing in return "all the products Uruguay needs." Negotiations between the two countries for a new trade agreement have been under way in Montevideo since last December.

In February, the USSR reportedly offered MIG aircraft to Argentina for wheat or agricultural products, but there has been no indication of a firm commitment, and the offer has aroused little Argentine interest. The USSR offered arms of other types to Ecuador last December, but was turned down. (Concurred in by ORR)

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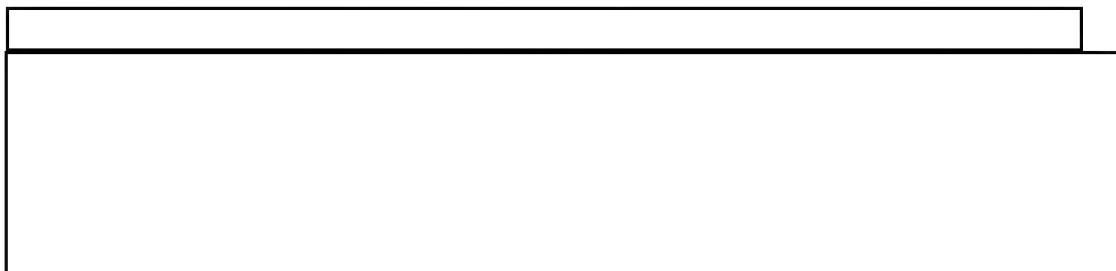
**3. NORTH KOREA ANNOUNCES PROSPECTIVE
TROOP REDUCTION**

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The North Korean regime announced on 31 May that its armed forces will be reduced by 80,000 men by 30 August 1956. No other Communist regime has announced troop cuts since Moscow said it would reduce its forces by 1,200,000 men. This statement is part of the regime's effort to persuade other Asian nations to accept the view that forces in South Korea can be reduced without danger of an attack. The Communists may also hope to pave the way for a rapprochement with anti-Rhee South Koreans.

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In the event these men are demobilized, they would provide a considerable addition of manpower to help solve North Korea's severe labor shortage. (Concurred in by ORR)

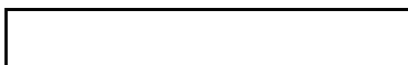
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4. LAOS PREMIER INVITED TO VISIT COMMUNIST CHINA

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Laotian premier Souvanna Phouma informed the American chargé in Vientiane on 29 May that he had received, via New Delhi, an invitation from Chou En-lai to visit Peiping. The premier is obviously flattered and eager to go. He indicated that if the trip developed--and the chargé has little doubt but that it will--it would take place in August or September and might include a stop in Hanoi.

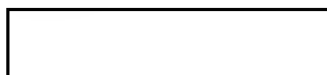
Souvanna assured the chargé that he was aware of the dangers of accepting any economic aid that might be extended by Peiping, and stated that he would not permit Chinese technicians to enter Laos or allow his country to be "Communized." He indicated, however, that he was amenable to a "good-will" offer of money or goods, in return for continued nonalignment with SEATO.

Comment

This invitation is intended to give additional punch to the Communist propaganda campaign that was launched early this year with the object of neutralizing Laos.

The Communists hope to arrange a deal whereby the government will regain control over the disputed northern provinces, now held by the Communist-controlled Pathet Lao, in return for guarantees that Laos will renounce any military connections with the West and permit "reintegration" of the Pathets into Laotian society. Souvanna is attracted by the recent Communist proposals. He plans to meet his half-brother, leader of the Pathet Lao, later in June in the hope of achieving a "private" settlement. If agreement is reached, a major obstacle to a Peiping visit would thereby be removed.

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5. COUP BY ANTI-SIHANOUK FACTION IN CAMBODIA RUMORED

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A Cambodian army clique, composed of influential leaders, is plotting to install General Tioulong, now ambassador to Japan, as dictator of Cambodia, according to rumors reaching the American army attaché in Phnom Penh. The queen, who is more influential than the king, is reported backing the plot.

The attaché comments that there is "no factual confirmation" of an impending coup, but notes that Tioulong is a personal enemy of Sihanouk as well as a "strong-man type" who believes Cambodia needs a dictatorship instead of a Sihanouk-style "democracy."

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Comment

Colonel Dap Chhuon, a powerful provincial commander who is reported to be implicated in the plot, has frequently criticized Sihanouk's neutralist policies and recently reiterated to Ambassador McClintock his determination to "take action" if Sihanouk persisted in being a "Communist dupe." Other leaders of the plot, including the defense minister and army chief of staff as well as the palace, are reported to have indicated concern over the possible consequences of Cambodia's present foreign policies.

Sihanouk, who has the support of strong political groups, is presently on an extended tour of Europe which is to include visits to Moscow, Warsaw and Prague.

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**6. SYRIA REPORTED ABOUT TO RECOGNIZE
COMMUNIST CHINA**

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Syrian newspapers quoting an "official source" have stated that the Syrian government has decided to recognize Communist China. The official announcement reportedly will be made after Syria's leaders return from their three-day visit to Jordan which began on 29 May.

Comment

There is no official confirmation of these press reports. Syria is, however, expected to be the first Arab state to follow Egypt's lead.

Egyptian recognition of Communist China was enthusiastically greeted by the public and by many Syrian officials.



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7. HUNGARY AND YUGOSLAVIA SETTLE FINANCIAL CLAIMS

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The Hungarian-Yugoslav agreement of 29 May to settle outstanding Yugoslav financial claims removes a major block to improved relations between the two countries. According to the Yugoslav press, this opens

the way for a substantial expansion of economic ties and trade and also "co-operation in other fields."

The basis for settlement of these claims, which have been the subject of negotiation for about nine months, was presumably proposed by Hungarian party leader Rakosi, who is believed to have been under considerable Soviet pressure to foster a Hungarian-Yugoslav rapprochement. Because of Hungary's serious trade imbalance with the non-Communist world and the Soviet Union, Moscow may have had to assure Budapest of some form of aid.

The agreement calls for Hungarian capital and consumer goods in the amount of \$85,000,000 to be delivered to Yugoslavia in equal installments during the next five years. Yugoslav claims formerly totaled \$120,000,000 plus an unspecified amount of Yugoslavia's loss of trade after the 1948 break. The Hungarians acknowledged that the \$85,000,000 was only "two thirds" of their debt and cited the agreement as proof of Yugoslavia's good will.

All economic claims presently in dispute between Yugoslavia and the Soviet bloc have now been settled.



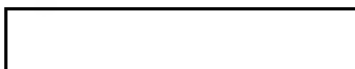
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**8. ARGENTINA AND MEXICO IRRITATED WITH PREPARATIONS
FOR PRESIDENTS' MEETING IN PANAMA**

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The chief of the American section of the Argentine Foreign Ministry believes that the presidents' meeting in Panama has been badly prepared and that previous understanding at the diplomatic level should have been reached before formal invitations were sent out by Panama, according to the American embassy in Buenos Aires.

Meanwhile, Mexico's acting foreign minister told the American ambassador to Mexico that his government had not been consulted about the program for the Panama meeting, and that if other governments had been, he would be in an embarrassing position.

Comment

To date, neither the Argentine nor the Mexican president has accepted the Panamanian invitation.

The unprecedented meeting of the chief executives of the American republics now scheduled for 25-26 June was formally suggested by the Panamanians in early May. The meeting is to be part of the commemorative ceremonies honoring the 130th anniversary of the Congress of Panama, which is generally considered to have been the first step in inter-American organization.

No previous discussion of a meeting of the presidents had been held in the Organization of American States, although a Mexican proposal for a meeting of OAS delegates in Panama had been under consideration for several months.

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THE ARAB-ISRAELI SITUATION
(Information as of 1700, 31 May)

The Iraqi ambassador to Egypt told Ambassador Byroade on 29 May that he was almost certain that Egypt had made an additional arms deal with Czechoslovakia "within the last few days" and that it involved mostly aircraft. Byroade commented that this would fit with reports that Nasr has been "fretting" that the MIG-15's were not a match for the Mystere IV's sold to Israel and that he was getting MIG-17's. Byroade added that Nasr reportedly said that for every plane he heard of being provided Israel he would obtain four for Egypt.

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BIWEEKLY SUMMARY
17-31 May 1956

THE TAIWAN STRAIT

**Report of the IAC Current Intelligence Group
for the Taiwan Strait Problem**

There were no significant developments in the area
during the period.

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